

FREQUENTLY ASKED QUESTIONS RELATED TO MANDATED COST PROGRAMS— SCHOOLS AND COMMUNITY COLLEGES

This document provides responses to questions frequently asked of State Controller's Office (SCO) staff. More mandated cost information is available on the SCO Web site at www.sco.ca.gov (click on Mandate Facts and Help).

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1. How is a mandated program established?

Pursuant to Government Code section 17551, subdivision (c), within one year of a change in law, local agencies and school districts may file a test claim with the Commission on State Mandates (CSM). The CSM reviews test claims, solicits input, and identifies a mandated program by adopting a statement of decision.

2. Who determines what specific activities are reimbursable?

The CSM determines what activities are reimbursable. The CSM solicits input and adopts parameters and guidelines consistent with the statement of decision. The parameters and guidelines identify reimbursable mandated activities. They state that claimants are allowed to claim and be reimbursed only for increased costs related to the reimbursable activities identified. Unless otherwise noted, the parameters and guidelines and various Government Code provisions require claimants to claim actual costs. The statement of decision and supporting staff analysis provide additional clarification if the parameters and guidelines for a specific mandate are not clear.

3. Who issues claiming instructions?

To assist local agencies and school districts in claiming reimbursable costs, the SCO issues claiming instructions within 60 days after the CSM adopts new or amended parameters and guidelines pursuant to Government Code section 17558, subdivision (a). The claiming instructions allow claimants to file initial and ongoing reimbursement claims. The SCO solicits input from state agencies and interested parties before issuing new or amended claiming instructions. The SCO updates the claiming instructions annually and posts them to the SCO Web site. These claiming instructions are issued to help claimants prepare claims for submission to the SCO. The instructions are based on the SCO's understanding of the State of California statutes, regulations, and CSM-adopted parameters and guidelines.

The SCO Web site identifies the claiming instructions under "State Mandated Cost Manuals." A separate link allows access to claiming instructions related to initial claims for new mandated programs.

4. When are reimbursement claims due to the SCO?

Annual reimbursement claims, commencing with the FY 2006-07 claims, are due February 15 following the fiscal year of the claim. Previously, the reimbursement claims were due January 15 of each year. The change resulted from Chapter 179, Statutes of 2007 (SB 86), which was chaptered on August 24, 2007.

5. Can the parameters and guidelines be updated to clarify reimbursable activities?

Yes. Pursuant to California Code of Regulations, Title 2, Division 2, Chapter 2.5, Article 3, section 1183.2, an interested party can request that the CSM amend, modify, or supplement the parameters and guidelines consistent with the statement of decision. The CSM Web site (www.csm.ca.gov) provides guidance on filing the parameters and guidelines amendments.

6. Is there standard language that describes “actual costs”?

Most parameters and guidelines adopted before 2003 state that all claimed costs must be traceable to source documents and/or worksheets that show evidence of and validity of such costs. Those parameters and guidelines adopted since 2003, and the SCO claiming instructions issued since September 30, 2003, provide additional clarification related to source documents as follows:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee records, or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The SCO has requested the CSM to amend parameters and guidelines issued before 2003 to incorporate this clarifying language on documentation requirements.

7. Are there alternatives to maintaining actual time records?

No, unless the program’s parameters and guidelines identify a uniform time allowance or some other alternate reimbursement methodology. Although certain situations allow claimants to document mandate-related time by using a time study, a valid time study still requires actual time records for the time period(s) sampled. An effective time study requires that an activity be a task that is repetitive in nature. Activities that require a varying level of effort are not appropriate for time studies. The time-study guidelines are available on the SCO Web site.

8. Does the SCO pre-approve time studies?

No. However, if the SCO is conducting an audit and a claimant chooses to perform a time study to support costs claimed in previous years, the claimant should submit a time-study plan for the SCO’s review to minimize any potential problems. The time-study guidelines are on the SCO Web site.

9. Does the SCO audit to statutory provision or regulation?

The SCO audits to the mandated program’s parameters and guidelines (regulation).

10. What is the SCO authority to perform mandated-cost audits?

The SCO performs audits of filed mandate claims under the authority of Government Code sections 12410, 17558.5, and 17561.

11. When may the SCO conduct an audit? How long must claimants retain documentation that supports mandated cost claims?

The SCO must initiate an audit within three years of the date on which a claimant files or last amends—whichever is later—an actual reimbursement claim. However, if no funds are paid to the claimant for the claim filed, the three-year statutory period begins from the date the SCO made the first payment for that claim.

A claimant must maintain records for the statutory period in which the claim is subject to audit by the SCO.

12. When must the SCO complete an audit?

The SCO must complete the audit within two years of the audit start date.

13. What auditing standards does the SCO use to perform mandated cost program audits?

The SCO performs audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The performance audit fieldwork standards require an auditor to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for the auditors' findings and conclusions.

14. Are mandate audit reports posted to the SCO Web site?

Yes. The SCO posts mandated-cost audit reports monthly on its Web site.

15. What recourse does a claimant have if it disputes an audit finding?

A claimant may file an Incorrect Reduction Claim with the CSM within three years of the SCO notification of adjustment. The CSM Web site (www.csm.ca.gov) provides guidance in filing an Incorrect Reduction Claim.

16. Why are mandated cost programs not fully funded? What is the SCO responsibility to ensure that sufficient funds are available to pay mandated cost programs?

The Legislature is responsible for appropriating funds to pay all of the mandated cost program claims approved by the SCO. In past years, the Legislature's annual appropriations have been insufficient to fund these costs. These deficiencies are the result of deferred funding for new claims for FY 2006-07 and prior years insufficient appropriations.

For local agencies, Proposition 1A, approved by voters on November 2, 2004, requires, with minor exceptions, filed claims to be fully funded beginning with FY 2004-05 claims and older claims to be paid over a 15-year period.

For schools and community colleges, current-year claim payments are deferred while appropriations are made available to pay the oldest claims first.

By May 1 of each year, the SCO submits an appropriation and deficiency letter to the Department of Finance and the CSM notifying the department of the amount necessary to fully pay all unfunded mandated cost program claims approved by the SCO. The letter includes schedules that identify the funding deficiencies by program and fiscal year.

The Department of Finance uses the SCO appropriation and deficiency letter to request that appropriations sufficient to pay the claims are included in the local government claims bills or other appropriation bills.

The annual appropriation and deficiency letter is available on the SCO Web site.

17. When must the SCO pay a local government for reimbursement claims submitted?

Effective for FY 2007-08 appropriations, Government Code section 17561, subdivision (d), requires the SCO to pay any eligible claims by August 15 or 45 days after the date the appropriation for the claim is effective, whichever is later. For previous fiscal years, the SCO was required to pay any eligible claim pursuant to this section within 60 days after the filing deadline for claims for reimbursement or 15 days after the date the appropriation for the claim is effective, whichever is later. The change is a result of Chapter 179, Statutes of 2007 (SB 86).

18. What is the penalty for filing late?

Effective for claims filed on or after August 24, 2007, Government Code section 17568 allows local governments to file valid reimbursement claims within one year after the deadline specified in section 17560. The SCO will reduce a late claim by 10% of the claim amount, up to \$10,000. If a local government submits an amended claim after the deadline specified in Section 17560, the SCO will reduce the claim by 10% of the increased claim amount, up to \$10,000. The SCO increased the penalty for a late claim pursuant to Chapter 179, Statutes of 2007 (SB 86).

19. How does the SCO recoup overpayments identified in mandated cost program audits?

The SCO offsets audit adjustments from mandated cost reimbursements to be made in subsequent years. Alternatively, the claimant may remit the amount to the State. The SCO does not recover any overpayments of mandated cost claims by offsetting funds appropriated by the Legislature for purposes unrelated to mandated cost reimbursements, such as Average Daily Attendance apportionments.

SCHOOLS

S-1. Does the California Department of Education (CDE) provide guidance in supporting actual costs?

Yes. The CDE's California School Accounting Manual (CSAM), Procedure 905, provides salary and wage documentation requirements that are applicable to federal and state restricted programs. Although CDE identifies mandated cost programs as state unrestricted programs, Procedure 905 recognizes that its documentation requirements may also be required for other state programs. The CDE states that these requirements also apply to mandated cost programs.

Procedure 905 states that local education agencies (LEAs) are required to use Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the alternative documentation requirements for state programs. The alternative documentation differs only slightly from OMB Circular A-87. Procedure 905 provides guidance for employees working solely on one cost objective (semi-annual certifications) and for employees working on multiple activities or cost objectives (personnel activity reports or equivalent documentation).

OMB Circular A-87, subsection (h)(4), states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. . . .

OMB Circular A-87, subsection (h)(5), states:

Personnel activity reports or equivalent documentation must meet the following standards:
(a) They must reflect an after-the-fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.

The implementation guide to OMB Circular A-87, ASMB C-10, states:

Where effort is expended on a number of activities with constant variations throughout the day as well as from day to day, a month-end certification would be unacceptable.”

S-2. Are charter school activities eligible for mandate reimbursement?

No. Charter schools are not eligible claimants. The CSM adopted the Charter School III statement of decision on May 25, 2006. The CSM stated that a “charter school is voluntarily participating in the charter program at issue” and that a charter school is not a school district under Government Code section 17519 and therefore is not eligible to claim reimbursement under section 17560. Thus, charter school costs are not eligible for reimbursement either directly or through a third party (i.e., a school district or superintendent of schools).

S-3. What program activities are appropriate for the use of a time study?

Mandated activities performed using standardized procedures that identify a repetitive task may be documented by a time study. The current procedures must be identical to the procedures used during the period to which time study results will be applied. Following are some of the reimbursable activities that may be subject to a time study.

- Habitual Truant Program—
 - Verifying prior truanancies
 - Making a conscientious effort to schedule a parent conference
 - Scheduling and holding a conference
 - Reclassifying pupils as habitual truants
- Intradistrict Attendance—
 - Operating a random, unbiased selection process in excess of school-site capacity for intra-district transfers
 - Evaluating each selected intra-district transfer to ascertain the impact of the requested transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools
- Notifications to Teachers: Pupils Subject to Suspension or Expulsion Program—
 - Identifying pupils
 - Information maintenance
 - Notifying teachers

S-4. What are the primary reasons for SCO audit adjustments?

Audit adjustments are commonly attributable to: (1) employees' time claimed frequently without supportive documentation; (2) non-mandate-related activities claimed; and (3) other general issues.

(1) Employees' Time Claimed Frequently Without Supportive Documentation

Claimants support salary and wage costs with certifications that reflect estimated, rather than actual, time spent performing mandated activities. These certifications are not supported with any source documents. They are often prepared after fiscal year-end and may also be unsigned and/or undated. These certifications are not acceptable source documents. Hours recorded must be traceable to source documents used in developing the certifications (e.g., time records, employee sign-in sheets, logs, or calendars). Claimants must maintain source documents that support certifications throughout the period during which the costs are subject to audit.

Consistent with guidance provided in the parameters and guidelines and/or claiming instructions, a source document is a document created at or near the same time the actual costs were incurred for the event or activity in question. The source document must show the

validity of the costs, when they were incurred, and their relationship to the reimbursable activities.

Time records should identify all of the work performed by an employee on a daily basis and should be signed and dated monthly by the employee. The SCO more closely scrutinizes time records or logs that identify only mandated activities.

Training or meeting sign-in sheets are also valid time records. Sign-in sheets should be dated and accompanied by an agenda or other training or meeting materials that identify the subject matter and specify the actual time spent on mandate-related activities.

The SCO has identified the following additional time-record problems:

- The claimant did not provide any documentation (e.g., time records, time logs, or calendars) to support claimed costs.
- The claimant did not provide any documentation to support a time study allegedly used to calculate claimed costs.
- The claimant's time study sample selection methodology was not statistically valid.
- Time records did not validate that employees performed mandate-related activities.
- Time logs did not show the date(s) on which employees performed mandated activities.
- Employees reported time worked based on an average time per occurrence. The claimant did not provide documentation (such as a time study or log) that supports the average time.
- The claimant did not provide documentation to support a percentage of an employee's salary costs charged to the mandated program.

(2) Non-Mandate-Related Activities Claimed

- Collective Bargaining Program—
 - Costs claimed for grievances that are actually personnel issues
 - Negotiation preparation time—individual time spent preparing for the negotiation meetings, time claimed for financial and/or budgetary analysis, and meeting time claimed for collective bargaining updates.
 - Generic collective-bargaining training at conferences, workshops, and seminars that does not deal with “the negotiated contract”
 - Claiming more than five employer representatives at negotiation sessions
 - Claiming ineligible salaries and expenses of the governing authority (e.g., School Superintendent and Governing Board)
- Habitual Truant Program—
 - Costs related to verifying the reasons for student absences
 - No documentation to show that the activities claimed are mandate-related

- No documentation to show that the activities claimed were actually performed
- Suspension or independent study days counted as unexcused absences, resulting in the overstatement of the number of unexcused absences classified as habitually truant
- Law Enforcement Agency Notification Program—
 - Costs related to investigating the incident or arresting and processing the student
- National Norm-Reference Achievement Test Program—
 - Costs claimed for administering achievement testing for California Standards Tests (CST) and California Alternative Performance Assessment (CAPA); commencing on July 1, 2004, reimbursable costs only pertain to the California Achievement Tests, Sixth Edition Survey (CAT/6) for grades 3 and 7
- Notification of Truancy Program—
 - Notification letters that did not contain the five elements required by the program's parameters and guidelines (eight elements effective July 1, 2006)
 - No documentation showing that the claimant performed the mandated activity (i.e., distribution of initial truancy notification letters)
 - Claiming letters distributed to students who did not have at least four unexcused absences (three absences effective July 1, 2006)
 - Suspension or independent study days counted as unexcused absences, resulting in an overstatement of the number of unexcused absences initially classified as truant
 - Claiming multiple letters sent for the same student
 - Claiming notifications performed by telephone call or home visit rather than by letter
- Standardized Testing and Reporting Program—
 - Costs claimed for administering achievement testing for CST and CAPA; reimbursable costs pertain to the following tests for grades 2 through 11:
 - Spanish Assessment of Basic Education, Second Edition (SABE/2), to every Spanish-speaking pupil of limited-English proficiency from October 10, 1997, through June 30, 2004
 - Stanford Achievement Test Ninth Edition (SAT-9) from October 10, 1997, through June 30, 2002
 - The CAT/6 from July 1, 2002, through June 30, 2004

(3) Other General Issues

- Subsidiary claim schedules do not reconcile with the FAM-27 Certification of Claim form.
- Supporting summary schedules do not agree with the subsidiary claim schedules.
- Mathematical or typographic errors result in incorrect claim costs.
- Filed claims do not contain detailed salaries and benefits information by individual employee, as required by the claiming instructions.

- Mandate costs are claimed for employee tasks that were funded or reimbursed from restricted revenue sources. CSAM Procedure 310, identifies restricted revenue limit, federal, and state sources as resource codes 2000 through 7999.
- Duplicate costs are claimed.
- Employee productive hourly rates are not supported by payroll and attendance records.
- Documentation supporting claimed costs is not available during start of audit.

S-5. Have the SCO's audits identified any other issues that local education agencies (LEAs) need to know?

Yes.

(1) Period Accounting Issue

The SCO's audits have identified an issue common to the Notification of Truancy Program, regarding identifying unexcused absences at the middle and high school level. Education Code section 48260.5 requires LEAs to issue initial truancy notification letters for truant students.

Education Code section 48260, subdivision (a), states:

Any pupil subject to compulsory full-time education or to compulsory continuation education who is absent from school without valid excuse three full days in one school year or tardy or absent for more than any 30-minute period during the schoolday without a valid excuse on three occasions in one school year, or any combination thereof, is a truant and shall be reported to the attendance supervisor or to the superintendent of the school district.

For middle and high schools, many LEAs maintain attendance by period but do not count single-period unexcused absences as one unexcused absence when identifying truant students. Instead, LEAs erroneously count six unexcused period absences as one unexcused absence (using the premise that one day contains six periods). As a result, the LEA's attendance system has two potential flaws: (1) The LEA may not comply with Education Code section 48260.5 on a timely basis. For example, if a student has a first-period unexcused absence for 18 consecutive days, the LEA will not issue an initial truancy letter until well after the student met the definition of a truant and a habitual truant; and (2) The LEA may not comply with Education Code section 48260.5 for certain students. For example, if a student has a first-period unexcused absence for ten days, the student is truant by statutory definition, but the LEAs attendance system will not identify the student as truant.

(2) Notification of Truancy Program Changes

Pursuant to Chapter 69, Statutes of 2007 (AB 1698), the CSM amended the program's parameters and guidelines on January 31, 2008. The amendments revise the definition of a truant pupil to conform to Education Code section 48260. In addition, the amendments revise the truancy notification requirements to conform to Education Code section 48260.5. The amendments do not change existing statutory requirements; instead, they simply bring the program's parameters and guidelines into conformance with existing statutory requirements. The parameters and guidelines amendments are effective July 1, 2006.

COMMUNITY COLLEGES

C-1. Does the California Community Colleges Chancellor's Office (CCCCO) provide guidance in supporting actual costs?

No.

C-2. What program activities are appropriate for the use of a time study?

Mandated activities performed using standardized procedures that identify a repetitive task may be documented by a time study. The current procedures must be identical to the procedures used during the period to which time study results will be applied. Currently, none of the reimbursable activities have been identified as being subject to a time study. However, our Health Fee Elimination Program audits have allowed districts to conduct time studies to support counselors' time allocated to the mandated program.

C-3. What are the primary reasons for SCO audit adjustments?

Audit adjustments are commonly attributable to: (1) employees' time claimed frequently without supportive documentation; (2) non-mandate-related activities claimed; (3) other specific issues; and (4) general issues.

(1) Employees' Time Claimed Frequently Without Supportive Documentation

In the Health Fee Elimination Program, districts frequently claim a percentage of counselor salary costs without any documentation supporting the percentage applied.

(2) Non-Mandate-Related Activities Claimed

- Collective Bargaining Program—
 - Refer to discussion under Schools, "Non-Mandate-Related Activities Claimed"
- Health Fee Elimination Program—
 - Athletic insurance costs
 - Athletic physical exams
 - Salary cost of health professionals present at athletic events
 - Costs not required to maintain health services, such as promotional key chains, pens, coolers, tee-shirts, and refreshments
 - Services not provided in the 1986-87 base year

(3) Other Specific Issues

- Health Fee Elimination Program—
 - Districts do not report the correct amount of authorized health service fees. Districts report incorrect amounts by: (1) reporting actual fees collected rather than authorized fees, (2) reporting inaccurate student enrollment, apprenticeship program enrollment, and students who depend exclusively on prayer for healing, and (3) calculating

authorized fees using an incorrect authorized fee per student. The SCO obtains the nonduplicated count for student enrollment and apprenticeship program enrollment from the CCCCCO. The CCCCCO extracts this information from annual reports that districts submit.

- Districts do not report other health service-related revenue received, including additional fees charged to students.
- Districts do not accurately document health services provided in both the base year (FY 1986-87) and the claim year. Frequently, districts alter the base year services identified from one claim year to the next and are unable to document actual base year services provided. Districts also inappropriately modify the standardized claim form (HFE-2) to include services that are not identified in the parameters and guidelines. In addition, districts do not maintain documentation that adequately identifies claim year services provided.
- Districts do not document actual time spent performing activities that exceed base year activities.

(4) General Issues

Claimed indirect cost rates were not federally approved and were not calculated using the SCO's FAM-29C methodology.

Also refer to the discussion under Schools, "Other General Issues."

C-4. Does the SCO have any other comments related to the Health Fee Elimination Program?

Effective January 1, 2006, the methodology for calculating authorized health service fees changed. Districts may no longer deduct from total enrollment those students who received Board of Governors Grants (BOGG waivers).

Effective with the 2006 summer session, the authorized health service fee per student is \$15 per semester, and \$12 per quarter, summer session, or intersessions of four weeks or more. Effective with the 2007 summer session, the authorized health service fee per student is \$16 per semester, and \$13 per quarter, summer session, or intersessions of four weeks or more.